

Chapter 2

Financial Management (Accounting) System Requirements

2-1. General

a. This chapter provides principles, standards, and related policy requirements used in developing, operating, evaluating, and managing the overall financial management system supporting the U.S. Army. The primary focus is on the accounting system and related subsystem components.

b. This regulation carries out the guidelines of the General Accounting Office (GAO) Manual for Guidance of Federal agencies. This includes the Joint Financial Management Improvement Program (JFMIP) Federal Financial Management Systems Core Financial Systems Requirements. These are implemented by Office of Management and Budget (OMB) circulars, Treasury Financial Manuals (TFMs), and Office of Secretary of Defense (OSD) requirements (principally Department of Defense (DoD) 7220.9-M and DoD 7000.14-R)).

c. The policy in this regulation prescribes requirements for the single, integrated financial management system and relationships of the various financial, management, information, and budgeting systems comprising the single system.

2-2. Professional requirements

a. The accounting function will receive high priority. Each accounting office will be supervised by a qualified, professional accountant.

b. Accountants will be familiar with:

(1) All prescribed accounting principles, standards, and related requirements.

(2) The overall accounting system's processing controls.

(3) System testing requirements to ensure accounting controls are in place and working as intended.

c. All accounting office personnel will receive adequate training to efficiently and economically accomplish their assigned responsibilities.

2-3. Responsibilities

a. The Director of the Defense Finance and Accounting Service-Indianapolis Center (DFAS-IN) is responsible for finance and accounting procedural policies and systems.

b. The Assistant Secretary of the Army for Financial Management and Comptroller (ASA(FM&C)) is the senior-level U.S. Army financial management official. The ASA(FM&C) responsibilities include coordinating the efforts of U.S. Army elements involved in maintaining the overall financial management system.

2-4. Statutory and regulatory requirements

There are several public laws and regulatory requirements which govern financial management systems and procedures prescribed by this regulation. Some of the basic requirements are:

a. The Budget and Accounting Procedures Act of 1950 (also known as the Accounting and Auditing Act of 1950). This Act assigns to the Comptroller General of the United States the responsibility for prescribing the principles, standards, and related requirements for accounting which executive agencies must follow. These are set forth in the GAO Policy and Procedures Manual for Guidance of Federal Agencies. Major sections of the manual include Title 2-Accounting; Title 6-Pay, Leave, and Allowances; and Title 7-Fiscal Procedures.

b. The Federal Managers' Financial Integrity Act of 1982, which amends the Accounting and Auditing Act of 1950, requires ongoing evaluations and reports. These evaluations and reports show the adequacy of the systems of internal accounting and administrative control of each executive agency. The Act requires that the heads of executive agencies submit annual internal control statements of compliance and material weaknesses and a separate report on whether the agency's accounting system conforms to Comptroller General requirements.

c. The National Defense Authorization Act of fiscal year (FY) 1989 makes the ASA(FM&C) responsible for supervising the operation of systems that account for the quantity, location, and costs of property and inventory.

d. The Chief Financial Officers Act of 1990 requires preparation of agency-wide financial statements and financial audits.

e. 31 United States Code (U.S.C.) contains the basic statutory requirements for the use, control, and accounting for public funds.

f. The TFM and related circulars prescribe official receipt, appropriation, and other fund account symbols and titles for the Federal Government. They also provide overall policy guidance for such matters as the deposit of monies, surety bonds, disbursing, imprest funds, foreign currency, exchange rates, and the preparation of financial reports.

g. OMB circulars, bulletins, and manuals provide policy and procedural guidance for developing, operating, evaluating, and reporting on financial management systems. The OMB system objectives support the establishment and maintenance of a single, integrated financial management system. This system provides a framework for complying with applicable laws, appropriate budget and accounting principles and standards, and U.S. Treasury reporting requirements.

h. DoD 7220.9-M and DoD 7000.14-R provide overall policy and procedures for financial accounting within the Department of Defense (DoD). They establish a conceptual framework for DoD accounting, provide accounting standards, and specify financial reporting requirements. These

publications also prescribe procedures for maintaining operating accounting systems, and include procedures for preparing annual system status reports.

2-5. System architecture

a. The financial management system supporting the U.S. Army is comprised of: a planning, programming, and budgeting system; and an accounting system.

(1) The DoD Planning, Programming, and Budgeting System is considered a single system. It meets current DoD requirements to consolidate data into a single DoD budget submission.

(2) The accounting system supporting the U.S. Army consists of a number of selected interfacing subsystems which feed the department-level general ledger.

b. The integrated accounting system supporting the U.S. Army will contain all financial information, in both budgetary and proprietary accounts. This system--

(1) Consolidates a selected number of sub-systems, each designed to provide specific information or meet a management need.

(2) Uses single-source input.

(3) Contains budget execution and expenditure information.

c. As a minimum, accounting systems will include the following features:

(1) A comprehensive set of internal controls to ensure the accuracy and reliability of information in files and reports, and to prevent or discourage fraud.

(2) Controls to guarantee the security of equipment, programs, and files as well as the privacy of records on individuals.

(3) Audit trails which allow transactions to be traced from reports back to the original entry.

(4) Automated general ledger and reporting modules, where relevant, to aid in producing basic financial reports.

(5) Appropriate automated subsidiary ledgers, such as an accounts payable ledger and an accounts receivable ledger.

(6) Flexible inquiry capability to aid in meeting nonrecurring needs for information.

(7) One time recording of transactions.

(8) Automated matching of related transactions (for example, matching disbursements with related payables).

(9) Adequate manual procedures, since not all transactions will be automatically entered and almost all will require some manual work. In other words, not everything will or should be computer-ized. Some things will be done by people. A good system must deal with manual as well as auto-mated processes.

2-6. System objectives

The major objectives of financial management systems are to--

a. Establish and maintain records and accounts of financial transactions and their summaries for each accountable person or organization in a manner which will--

(1) Provide full disclosure of the financial results of U.S. Army activities.

(2) Avoid duplication of the records and accounts of any subordinate accountable entity.

(3) Provide a controlled means of complying with legal and administrative limitations on commitments, obligations, disbursements, and investments in property and other assets.

(4) Facilitate effective internal and financial control over and accountability for all funds, property, and other assets.

b. Provide for prompt and accurate payment of accounts to U.S. Army personnel, contractors, and other vendors for services rendered and material furnished. This includes determination of entitlement to and propriety of such payment.

c. Provide for prompt collection of all amounts due the U.S. Government.

d. Furnish timely, complete, and accurate financial reports required by the U.S. Congress, executive agencies, and management. These include financial data on the status of funds, costs, and property used in--

(1) Planning and programming, current and long range.

(2) Budgeting and funding.

(3) Reconciling with the accounts maintained by the U.S. Treasury, and

(4) Providing a basis for management to make decisions about U.S. Army plans and programs.

e. Provide for bringing together all financial transactions concerned with appropriations, apportionments, operating budget authority, allowances, allocations, allotments, commitments, obligations, receipts, disbursements, accrued expenditures and revenues, assets, liabilities, costs, and property in a single integrated financial management system.

2-7. Accounting principles and standards

The accounting system will comply with the accounting principles, standards, and related requirements issued by the Comptroller General of the U.S.

a. Accounting and financial reporting focuses on various elements, covering budget and accrual concepts. These concepts include assets, liabilities, equity, expenses and losses, financing sources, and results of operations, as well as collections, budget authority, obligations, outlays, and budgetary resources.

b. Providing useful information is the overall goal of accounting and financial reporting. Accounting information is useful when it is timely, relevant, reliable, cost beneficial, material, comparable, and consistent.

c. Detailed principles and standards are included throughout this regulation.

d. An accounting standards review guide questionnaire is used by proponents of reportable accounting systems to perform compliance assessment.

2-8. Special considerations and requirements for automated financial and accounting systems

a. Internal control responsibilities for automated data processing (ADP) system applications are divided into four parts:

(1) Functional proponents--

(a) Establish policy governing overall requirements for ADP applications, including internal control requirements.

(b) May require use of specific forms, reporting levels, and other methods in regulations and other guidance to control resources.

(c) Must prescribe and accommodate internal control requirements when designing the ADP system.

(2) System design managers (system proponents)--

(a) Are responsible for the functional design, development, implementation, and maintenance of ADP systems.

(b) Must ensure inclusion of internal control requirements prescribed by functional proponents in functional specifications for the design of ADP systems.

(c) Must perform enough testing to ensure the ADP design conforms to functional specifications which includes verification of proper incorporated internal controls into application programs.

(3) ADP managers--

(a) Are responsible for the actual design and development of computer programs.

(b) Ensure inclusion of proper internal controls prescribed in functional specifications in application programs.

(c) Are responsible for internal controls associated with executive software and security of ADP hardware, software, and related communication linkages.

(4) System design and ADP managers, as a joint effort will--

(a) Final test the ADP system to ensure the incorporation of all prescribed functional specifications and internal controls into application programs before system implementation.

(b) Document these tests for all new systems and for changes to existing systems.

b. Each of the groups in paragraph 2-8 a., above, is responsible for a distinct area in developing ADP systems. However, they must work together to ensure adequate internal controls.

c. Some ADP systems provide support for several tasks; thus, use care to evaluate these systems. (For example, the Commodity Command Standard System, used for the wholesale Army DBOF supply

management business area (DBOF-SMA), supports several supply and financial management tasks.)

(1) Controls embedded in such systems include edit checks to correlate data in consolidated files that support several tasks. System design managers will identify embedded controls and ADP managers will review and verify these controls. Operating managers in the field who use ADP systems will verify other controls (such as batch totals.) Activities must distinguish between these controls for locally designed ADP systems.

(2) Verify the adequacy of embedded controls in ADP systems before approving a system or a change to a system for operational use.

(3) After placing application programs or changes in operation, validation of the adequacy of controls will depend primarily on--

(a) User feedback.

(b) Results of audits and inspections.

(4) Ensure proper internal control, such as separation of duties and audit trails, are in place for file maintenance (write) capabilities which bypass normal system edits and update routines.

d. As evidence that internal control standards were considered in approving new systems or changes to existing systems, add a certification statement to approval forms. Included are forms used by the proponent agency to turn over functional specifications to the ADP manager and to accept the system or changes to existing systems on the basis of a system acceptance test. The certification statement will read, *"This system (or system change) (considering both prescribed manual procedures and automated applications) complies with GAO internal control standards. Changes contained in this package do not degrade compliance of the entire system to GAO standards."*

e. System design managers of each accounting system also must ensure that system changes comply with GAO standards and do not degrade internal controls.

(1) Evaluate changes that affect any part of the system (both manual and automated). Add a certification statement to the proper approval forms that goes beyond the statement prescribed in paragraph 2-8 d., above.

(2) For changes to accounting system applications, the certification statement will read, *"This change (both manual and automated) complies with the GAO standards of accounting and internal control and does not degrade compliance of the entire system to these standards."*

(3) For systems that do not comply with GAO accounting standards, but are planned for replacement. Use the statement in paragraph 2-8 d., above.

2-9. Accounting system basic requirements

a. The accounting system supporting the U.S. Army will comply with the prescribed accounting principles, standards, and related requirements.

b. The primary objective of the accounting system supporting the U.S. Army is to provide:

(1) actual accounting data for use in budget formulation, fund control for enacted budgets, and accounting support for budget execution;

(2) financial information needed to help manage the cost of the U.S. Army; and

(3) compliance accounting and reporting requirements of the U.S. Congress, OMB, U.S. Treasury, and the Office of the Secretary of Defense (OSD).

c. The accounting system will maintain financial control over all resources during their life cycles and render accurate and timely accounting reports. Enter source data needed in an accounting system only once and transfer to appropriate accounts or other segments of the system or its subsystems.

Determine which system will retain the basic source document for data required by both an accounting system and another administrative system. If the accounting system does not retain the basic source document, establish and maintain an audit trail to allow verification of the authenticity of the document by the accountant responsible for operating the accounting systems.

2-10. Evaluation criteria

Functional proponents, system design managers, and automated data processing (ADP) managers will evaluate the financial management systems using prescribed principles, standards, related requirements, and the financial management system objectives listed below.

a. *System objectives.* The financial management system will use the best of acceptably priced, contemporary technology. This includes automated data entry and edit, data management, data base dictionaries, electronic communication between systems, flexible report formats, and controlled access to data bases by mini-computers and other means to achieve the following:

(1) *Usefulness.* Financial management information will be gathered and processed only when necessary to meet specific internal management needs or external requirements. Reports will be tailored to specific user needs. If report usage does not justify costs, reports will be terminated. Usefulness will be determined through consultation with users.

(2) *Timeliness.* Financial management information will be recorded as soon as practical after the occurrence of the event and made available to managers as soon as possible following the end of the reporting period. Final data will be available in time to meet internal and external reporting requirements.

(3) *Reliability and completeness.* Financial management information will be complete and

accurate. It will be verifiable and obtained from the official records and systems. It also will be no more detailed than necessary to meet the needs of management and external requirements.

(4) *Comparability and consistency.* Financial management information will be recorded and reported in the same manner using uniform definitions. Consistency over time will be maintained. New and revised financial systems will adopt common, existing definitions, accounts, and account classifications.

(5) *Efficiency and economy.* Financial management systems will be designed and operated within reasonable costs. Systems that are too costly to operate will be identified and phased out. This will be accomplished through the installation of effective systems of planning and evaluation, sharing data, eliminating overlap, and duplication. The best contemporary technology (including commercially available packages) will be used which have proven successful in other U.S. Government agencies or the private sector.

b. *Systems integrity.* Financial management systems will feature internal controls designed, operated, and evaluated according to prescribed policy requirements.

c. *Support for budgets.* Record, store, and report financial management information to facilitate budget preparation, analysis, and execution. Classify data uniformly. Financial management data on results will be classified to track such decisions. This includes detailed support for external budget reports. Include data required for budget and management decision making on unit costs and performance.

d. *Support for management.* Record financial management information in a manner to ease carrying out the responsibilities of both program and administrative managers. The financial management system will provide for a coherent, timely, and accurate financial management data base. It should be supplemented as necessary to meet management requirements for administrative data. Develop cost analysis only as needed for pricing purposes, comparative cost analyses, and to meet the needs of management or higher authority.

e. *Full financial disclosure.* Record and report financial management information as required to provide for full financial disclosure and accountability.

2-11. System evaluation

a. Accounting system evaluations will provide reasonable, not absolute, assurance (not an audit) that the total operating accounting system complies with prescribed accounting and internal management control standards. Use the System Manager System User Review Guide, provided by DFAS-IN, to document the results of each evaluation and retain the workpapers for review and audit. A typical system

is comprised of three aspects: automated processes of the basic system, manual processes of the basic system, and significant subsidiary and associated accounting processes that interface with the basic system and affect the accounting reports. Address each aspect in the system evaluation. Consider aspects not under the control of the system manager in the overall system evaluation. Evaluations of standard systems operating at multiple locations must address each of the three system aspects. However, a detailed examination at each location is not required. Rather, on a selective basis, collect, summarize, and integrate the results of existing performance indicators into the evaluation.

b. Perform the System Manager System User Guide requirements annually by reassessing performance indicators, reevaluating work papers for adequacy and completeness, and performing transaction testing with emphasis on sensitive or high risk areas if required. The system review must be sufficient to provide reasonable confidence of "how well" the system is operating relative to the prescribed standards. These standards include assurance that prescribed internal controls and procedures are in place and working as intended. The prior-year RCS CSCOA-118 report (Federal Managers' Financial Integrity Act Report on Operating Accounting Systems), (see Chapters 29 and 30) provides the basis for reporting changes.

c. The completed System Manager System User Review Guide will be specific enough to permit effective management and oversight reviews. A knowledgeable independent reviewer should be able to examine and understand the documentation and determine how conclusions were reached. Responses to the review guide questionnaire are the key to the evaluation process. Accordingly, the evaluation team must exercise professional judgement regarding reasonableness, adequacy, and applicability of evaluation information.

2-12. Review of system compliance evaluations
DFAS-IN/AM will make a periodic independent review of accounting system compliance work-papers. The review will focus on the adequacy of the evaluation workpapers which substantiate compliance or noncompliance of the operating accounting system with the GAO standards.

2-13. Reports

a. To update the inventory of operating accounting systems, DFAS-IN/AM may periodically issue a data call for accounting offices to identify systems being used.

b. The Federal Managers' Financial Integrity Act of 1982 requires executive agencies to annually report whether their accounting systems comply with Comptroller General standards. System proponents will provide DFAS-IN an annual evaluation. Provide

the evaluation in the RCS CSCOA-118 report according to Chapters 29 and 30.

2-14. Key Accounting Requirements

The accounting, payroll, and internal control requirements are categorized in the Review Guide in-to the following thirteen (13) Key Accounting Requirements:

a. General ledger control and financial reporting.

The system maintains double-entry general ledger accounts. The general ledger account structure follows the DoD standard general ledger account structure. Accounting reports are based on the general ledger. The system provides for full financial disclosure, accountability, adequate financial information, reports to meet management needs, and for necessary external reporting to DoD, OMB and the U.S. Treasury.

*b. Property and inventory accounting*The value of property, plant, equipment, and material, including government-furnished materiel and property used by contractors, is recorded in the accounting system. The system maintains financial control over the acquisition, use, and disposition of all assets-procurement, receipt, issue, depreciation, in-transit, and any other status. Reconcile subsidiary records to control accounts. Personnel responsible for property will ensure that there is a direct audit trail from the acquisition of property through general ledger reporting.

*c. Accounting for receivables*The system accounts for all accounts receivable (any indebtedness to the U.S. Government). Accounts receivable involve amounts due from others when the right to receive funds occurs, which may result from the performance of services, delivery of goods, or as in the case of interest income, the passage of time. Also, included are amounts due because of overpayments, valid claims, and delinquent advances. The process provides controls to collect delinquent debts (this includes compliance to the Debt Collection Act of 1982, revised for charging interest, penalties, and administrative costs). Advances paid are recorded as assets until the receipt of goods or services or until contract terms are met.

d. Cost accounting Cost accounting involves accounting analysis and reporting on costs of production of goods or services, operation of programs, activities, functions, or organizational units. Cost accounting is required in the accounting system if it is needed for pricing decisions, productivity improvement decisions or measurement of performance, efficiency comparisons of like activities, or in DBOF activities.

e. Accrual accounting Accrual accounting recognizes the accountable aspects of financial transactions or events as they occur. Transactions are recorded in accounting records as they occur or are adjusted to the accrual basis at each month end. Accrued expenditures represent expenses incurred

but not due until a later period. Accrued revenue represents amounts earned. Accrued payroll for salaries and wages, employer's share of fringe benefits, allowances, severance pay, unfunded annual leave, annual leave, and retirement are recorded and reconciled with the actual payroll.

f. Military and civilian payroll procedure Payroll standards require that all persons entitled to be paid are paid promptly in the proper amounts. Proper accounting for leave and disposition of all authorized deductions from pay is maintained. Appropriated integration exists between the payroll and general accounting system. Payroll systems incorporate controls of both gross and net payroll amounts and payroll deductions to ensure smooth payroll processing action and to minimize incorrect payments. Controls ensure that only authorized deductions are made from pay, and all deductions are supported by proper documentation. Accounting entries for authorized deductions from pay are verified. Timely, accurate, and complete individual and subsidiary records are maintained for leave accounts, employee benefits, compensated personnel absences, general benefits such as bonuses and cash allowances for quarters and subsistence, allotments by type and amount, and other balances. Reconciliations of the standard general ledger and personnel records to payroll records are performed.

g. System controls. The system controls are fully effective in ensuring accuracy, reliability and/or preventing waste, loss, unauthorized use, or misappropriation which may occur anywhere in the chain of events from transaction authorization and approval to issuance of reports. System controls are present to prevent, detect, and correct errors and irregularities that may occur throughout the system. Separation of duties and responsibilities is maintained for initiating, authorizing, processing, recording, and reviewing transactions. System security and integrity is maintained for authorized processing to include procedures and controls which protect hardware, software, and documentation from physical damage by accident, fire, flood, environmental hazards, and unauthorized access. Also, the system has controls to prevent unauthorized use of confidential information.

h. Audit trails. Audit trails capabilities allow for readily tracing all transactions. (For example, tracing a general ledger account balance from a trial balance to the original transaction and vice versa.) Audit trails also include tracing of rejected or suspended transactions to ultimate correction.

i. Cash procedures and accounts payable The system ensures timely accurate payments based on properly approved disbursement documents. Payment process complies with the Prompt Payment Act. Cash discounts are taken when determined to be financially advantageous. Cash is deposited as expeditiously as possible and immediately recorded

in the accounting records. Accounts payable are liabilities recorded when goods or services are constructively received. For items manufactured by a contractor to specifications, the accounting system reflects the appropriate payable, including contract retention, for each accounting period based on requests for progress payments or on reasonable estimates of unbilled contractor performance. Accounts payable for services performed by employees, contractors, and others are determined based on performance as evidenced by payroll records, progress billings, or other available data. Reasonable cost estimates are made for services performed before the end of a reporting period for annual financial reporting purposes in the absence of invoices or other available information.

j. System documentation. The overall operating accounting system, including both manual and automated aspects, is fully documented. System documentation adequately describes the system design and procedures. The documentation covers the system's actual operations including how the functional users and operators interact with and use the system, and the computer program narratives and listings. Documentation is complete, current, and maintainable. In addition, it is of sufficient scope and depth to provide management, users, system operation and maintenance personnel, auditors and other evaluators an understanding of the design and operation of each component in the system and its integration with and relation to all other components. The documentation describes the system's functional requirements, data requirements, acceptance test plan, and test results. Operational accounting system documentation is appropriately safeguarded and periodically updated, as applicable, to reflect actual operations.

k. System operations Adequate organization and planning exist regarding system operations to assure that financial management and accounting objectives are met in an economical and efficient manner. Financial systems contain all data required to achieve the purposes for which they were created; but, also are as simple as possible consistent with users' needs. The existing and planned hardware is adequate to process efficiently current and projected future transaction volumes. There is compatibility of existing and planned hardware to interface effectively with other systems. There are detailed system operating and maintenance procedures. Also, there are periodic system reviews to assure that the system is functioning as intended, required procedures are being followed, any operating problems are promptly identified and corrected, and enhancements are incorporated, as appropriate.

l. User information. User information requirements as to quality, accuracy, timeliness, reliability, responsiveness of the system are adequate to the user's needs. The system satisfies users as to their

reporting requirements as they relate to month-end reports.

m. Budgetary accounting The system will show what appropriations and funds are to be accounted for and a description of the accounting entity's proposed fund distribution and control process. The system has good fund control procedures to prevent untimely liquidation of obligations, unmatched expenditures, and undistributed disbursements. Administrative funds control ensures that funds are used economically, efficiently, and only for properly authorized purposes. The system supports formulation and execution of the budget. Programming, budgeting, accounting, reporting classifications and coding structures are uniform and consistent with each other and synchronized with the organizational structure so that actual activity reported within the accounting system can be compared with enacted budgets and support future budget formulation for each activity. Presidential, Congressional, and DoD decisions are recorded in the system, and financial management data and results are appropriately classified to track such decisions. The system records budget resources at the appropriate level and accounts for appropriations, apportionments, allocations, transfers, allotments of budget authority, customer orders accepted, reimbursables, and other appropriate accounts prescribed by DoD.